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CORNHUSKER ECONOMICS

UNIVERSITY OF
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Institute of Agriculture & Natural Resources
Department of Agricultural Economics
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Nebraska Custom Rates Changes from 2004 to 2006

Market Report	Yr Ago	4 Wks Ago	6/16/06
<u>Livestock and Products,</u>			
<u>Weekly Average</u>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight	\$83.18	\$78.87	\$78.78
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb	154.75	132.16	133.08
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb	116.86	107.42	114.74
Choice Boxed Beef, 600-750 lb. Carcass	139.63	144.93	152.09
Western Corn Belt Base Hog Price Carcass, Negotiated	69.64	66.73	77.82
Feeder Pigs, National Direct 45 lbs, FOB	49.93	52.34	50.47
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean	68.52	69.56	77.75
Slaughter Lambs, Ch. & Pr., 90-160 lbs., Shorn, Midwest	116.00	76.00	80.00
National Carcass Lamb Cutout, FOB	256.56	211.06	212.47
<u>Crops,</u>			
<u>Daily Spot Prices</u>			
Wheat, No. 1, H.W. Imperial, bu	3.02	4.72	4.17
Corn, No. 2, Yellow Omaha, bu	1.98	2.15	2.02
Soybeans, No. 1, Yellow Omaha, bu	7.11	5.41	5.70
Grain Sorghum, No. 2, Yellow Columbus, cwt	3.11	3.21	2.88
Oats, No. 2, Heavy Minneapolis, MN, bu	1.79	2.15	2.25
<u>Hay</u>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton	115.00	130.00	130.00
Alfalfa, Large Rounds, Good Platte Valley, ton	62.50	65.00	80.00
Grass Hay, Large Rounds, Good Northeast Nebraska, ton	57.50	55.00	55.00
* No market.			

The increase in machinery costs this year has created uncertainty about what are fair costs for custom services. Fuel costs certainly are a major factor, but the purchase or “sticker” prices of machinery and the repair costs have increased as well. Fuel costs have increased about 46 percent over the past two years since the last Custom Rates surveys were taken in the Spring of 2004. Over the same period, overhead costs which include taxes, interest and insurance went up 14 percent and labor costs increased 10 percent. These increases are measured by input cost indexes reported by USDA’s National Agricultural Statistics Service. Fuel costs may account for less than 10 percent of the total costs of some field operations such as planting or as much as 20 percent of total costs for operations such as combining.

When making the comparison from one survey to the next there are some points to keep in mind:

1. The Custom Rates Survey is anonymous and strictly voluntary. We do not know who responds and therefore we can’t estimate how many respondents are repeat respondents. There is probably a significant difference in the group who responds from one survey to the next. If respondents were the same, we could expect more uniformity in the results. That doesn’t mean the numbers would be similar. It just means that they would be more easily compared. For example, if a particular respondent reported a relatively low rate one time, it is likely that person would report a relatively low rate the next survey. It doesn’t imply that rate is accurate or inaccurate. It just means the reported rates would be consistent – in this case perhaps consistently low.
2. We are not able to assess if all rates reported are “arms length,” independent rates. Some rates reported may be “good neighbor” rates where operations are done to help a neighbor or a relative. It may involve an exchange of machinery operations, or an exchange of field work for labor or some other activity, or may involve the work



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recipient supplying the fuel rather than the custom operator.

3. There is a local supply-demand factor involved in custom rates. That is the reason we report the survey rates by district wherever possible. The factor we can't control is the number of responses we get by region. For example, if we got a large number of responses on one survey from an area where rates are relatively high and get fewer responses from that area the next survey, this could cause a shift downward in the relative rates.

The bottom line is that the reported rates are simply a random survey and that randomness can and does create what appear to be inconsistencies in the numbers. Using a calculated approach, we would start with the existing machinery

and fuel prices and labor rates and use the same procedures to calculate hourly costs.

The 2006 Custom Rates surveys have now been completed. The table below shows the changes in the average custom rates by type of operation from 2004 to 2006.

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Average Custom Rates Changes, 2004 to 2006, per acre (unless specified)	
Operation	Change (%)
Tillage	15
Planting Row Crops	10
Drilling Small Grains	11
Drilling Soybeans	10
Haying Operations	11
Anhydrous Ammonia Application	13
Weed Spraying - Boom	3
Weed Spraying Surface Vehicle	9
Combining Small Grains	9
Combining Corn and Soybeans	13
Custom Farming Irrigated Corn	13
Custom Farming Irrigated Soybeans	3
Custom Farming Dryland Corn	-1
Custom Farming Dryland Soybeans	-9
Making Silage, per hour	8
Hauling Manure, per hour	12
Tractor Rental, Less than 150 HP, per hour	38
Tractor Rental, Greater than 250 HP, per hour	6
Reported Labor Rate, per hour	7
Expected Diesel Fuel Price, 2006	\$2.14 per gallon
Assumed Labor Rate, 2006	\$11.00 per hour

Notes:

1. **Custom Contract Farming:** There are some anomalies in the custom farming rates. The state average rate for dryland crops actually went down while the rates for irrigated crops went up. The average number of times over the field for dryland soybeans went down slightly from 4.25 to 4. This may be a partial explanation for the decline in dryland rates.
2. **Tractor Rental:** The rate increases were significantly higher for smaller tractors than larger tractors.
3. **Combining:** The number of respondents for combining soybeans increased substantially, particularly for the combination rate of a flat charge plus extra charge for high yields. For the combination rate, the state average for the base rate increased \$7.42 per acre or 36% to \$27.75. The most common rate increased from \$20 to \$25. The extra charge also increased significantly from \$.15 per bushel for yields over 41 bushels to \$.23 per bushel for yields over bushels per acre.

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